

**TO:** Finance Committee Members

**THROUGH:** Rebecca Trevino, Chief Financial Officer

**FROM:** Piper Montemayor, Director, Debt and Portfolio Management

**DATE:** January 23, 2013

**SUBJECT:** Briefing and discussion on the Quarterly Investment Report for the period  
September 1, 2012 through November 30, 2012

## **ACTION REQUESTED**

No action requested.

## **BACKGROUND**

This report and its attachments have been prepared and are submitted to the governing body in accordance with the Public Funds Investment Act (PFIA). The Board's investment portfolio is in compliance with its Investment Rules and relevant provisions of the PFIA.

## **MARKET OBSERVATIONS**

During the fourth quarter of Fiscal Year 2012, economic indicators continued to indicate a slow growing U.S. economy. Labor markets, unemployment, consumer spending, housing, and inflationary indicators are being watched closely.

The Fed Funds rate plays a key role in determining the level of interest earnings for the Texas Water Development Board (TWDB). The Federal Reserve made no change to the Fed Funds target rate range of 0 to 0.25% during the quarter. The Federal Reserve had indicated that economic conditions may warrant maintaining short term rates at such "exceptionally low levels" through mid-2015. In December 2012, the Federal Reserve announced that the timeframe for rate adjustments would be dependent upon actual economic data targets including an unemployment rate of 6.5% and/or future inflation expectations rising above 2.5%.

The chart below provides a historical perspective of how the TWDB's weighted average yield has compared to the benchmark. The TWDB's investment portfolio is highly sensitive to the level of short-term interest rates. The pressure continues on the TWDB's composite weighted average yields.

### **Our Mission**

To provide leadership, planning, financial assistance, information, and education for the conservation and responsible development of water for Texas

### **Board Members**

Billy R. Bradford Jr., Chairman  
Joe M. Crutcher, Vice Chairman

Melanie Callahan, Executive Administrator

Lewis H. McMahan, Member  
Edward G. Vaughan, Member

Monte Cluck, Member  
F.A. "Rick" Rylander, Member

Qtr End	BENCHMARK Qtrly Avg 6mo Tbill	TWDB Composite Weighted Avg Yield	Variance
08/31/2010	0.20%	0.51%	0.31%
11/30/2010	0.18%	0.46%	0.28%
02/28/2011	0.18%	0.46%	0.28%
05/31/2011	0.12%	0.38%	0.26%
08/31/2011	0.09%	0.35%	0.26%
11/30/2011	0.09%	0.37%	0.28%
02/29/2012	0.08%	0.39%	0.31%
05/31/2012	0.14%	0.38%	0.24%
08/31/2012	0.14%	0.32%	0.18%
11/30/2012	0.14%	0.33%	0.19%

The TWDB had \$872,604,896.04 in the investment portfolio as of November 30, 2012. The largest component of the TWDB's funds was invested in Treasury Notes. The composite weighted average of 0.33% surpasses the quarterly average 6 month Treasury Bill benchmark of 0.14%.

Attachment 2 is the investment scorecard which provides a month by month view of the portfolio with a historical comparison to the prior year. This trending data (yr/yr and mo/mo) is monitored to evaluate and modify investment strategy as market conditions change. In addition, this attachment shows all trading activity that occurred. Individual monthly investment sheets are included which detail beginning and ending book and market value.

Investment staff will address any questions or comments from members of the Board.

*This Quarterly Investment Report complies with the TWDB's Investment Policy and with the requirements of Chapter 2256 Section 2256.023 of the Government Code (Internal Management Reports)*

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Rebecca Trevino  
Chief Financial Officer/Investment Officer

**Attachment 1 – Powerpoint presentation**  
**Attachment 2 – Investment Scorecard/Detail**  
**Attachment 3 – Investment Definitions**

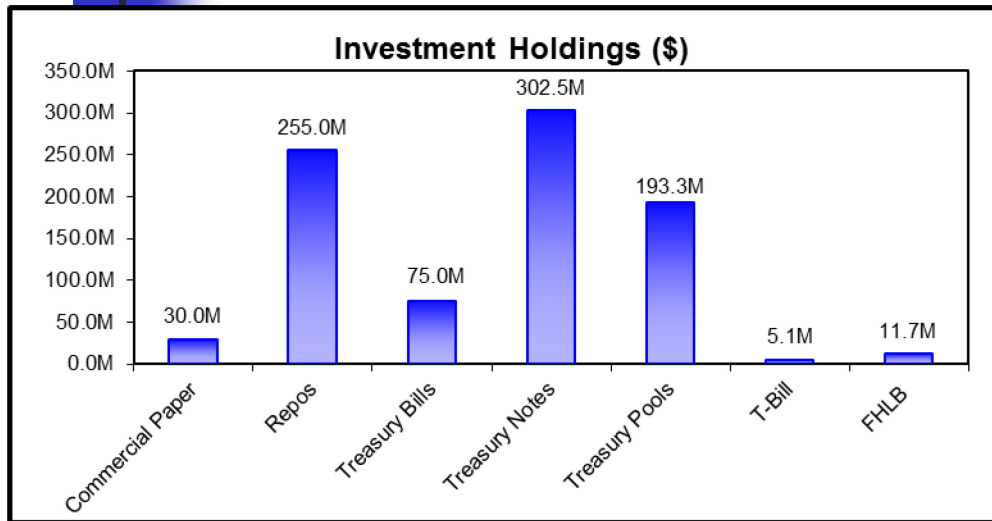


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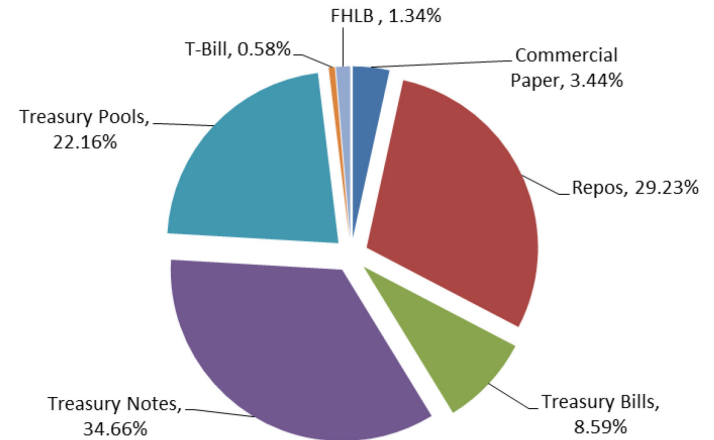
# 1st Quarter Investment Report

Quarter ending  
November 2012

# Portfolio Size: \$872,604,896.04



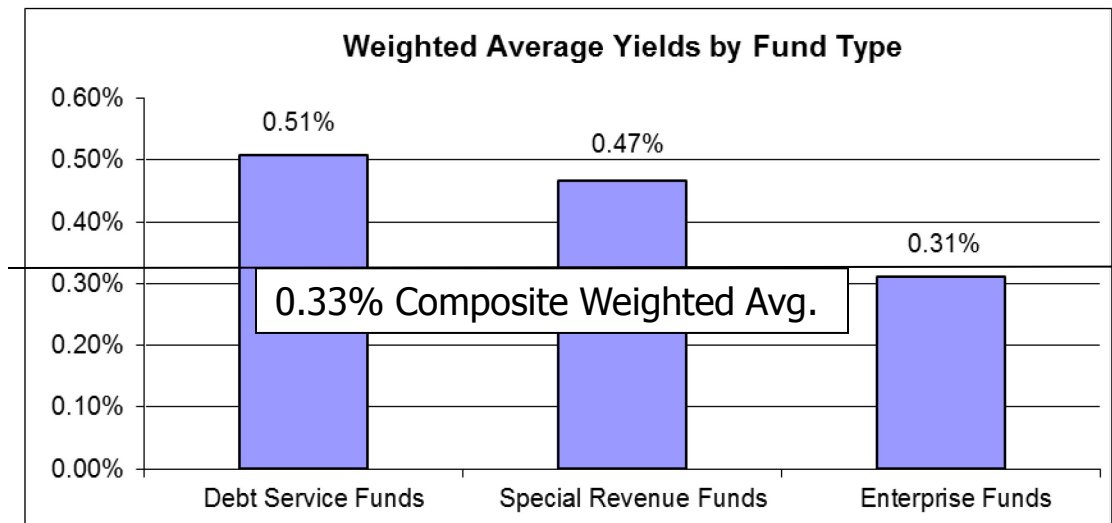
**Investment Portfolio Composition**



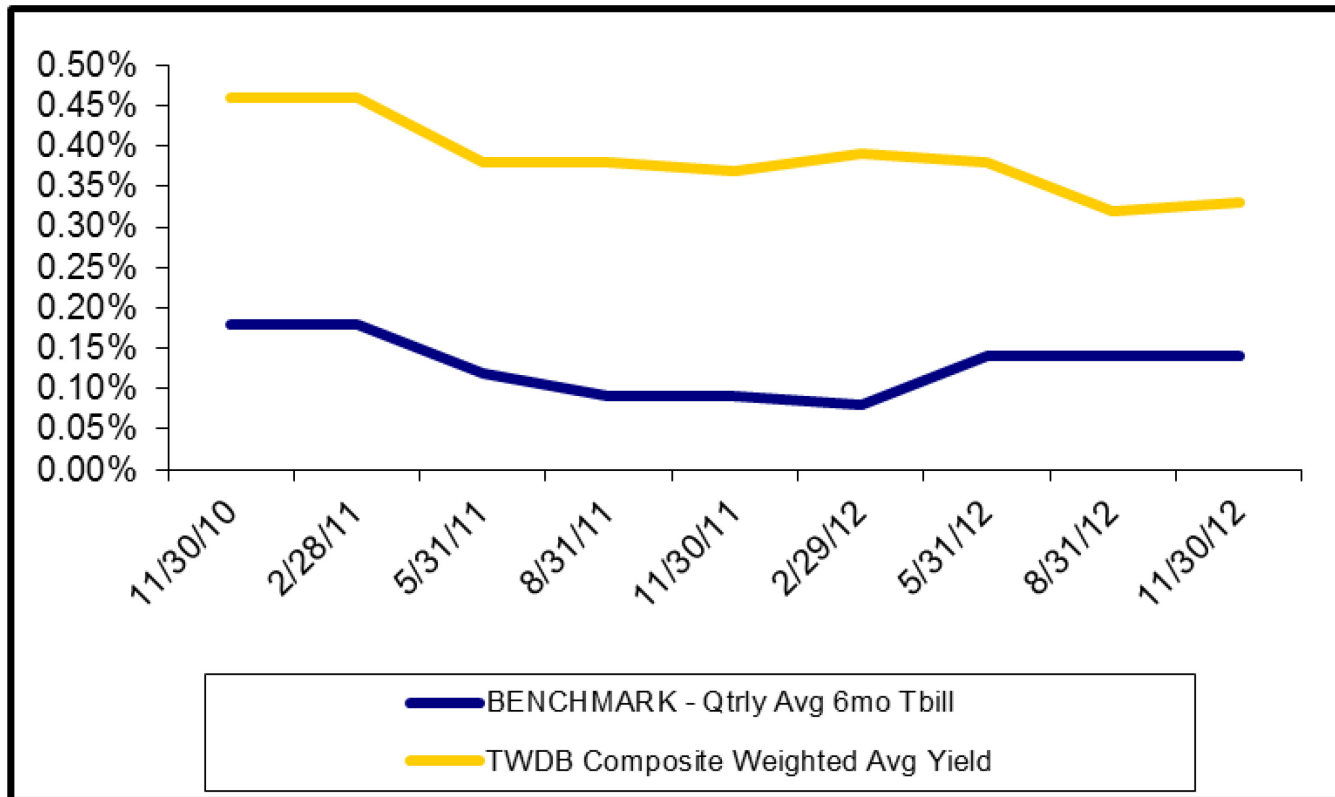
FY13 1st Qtr – November 30, 2012

# Average Investment Yields

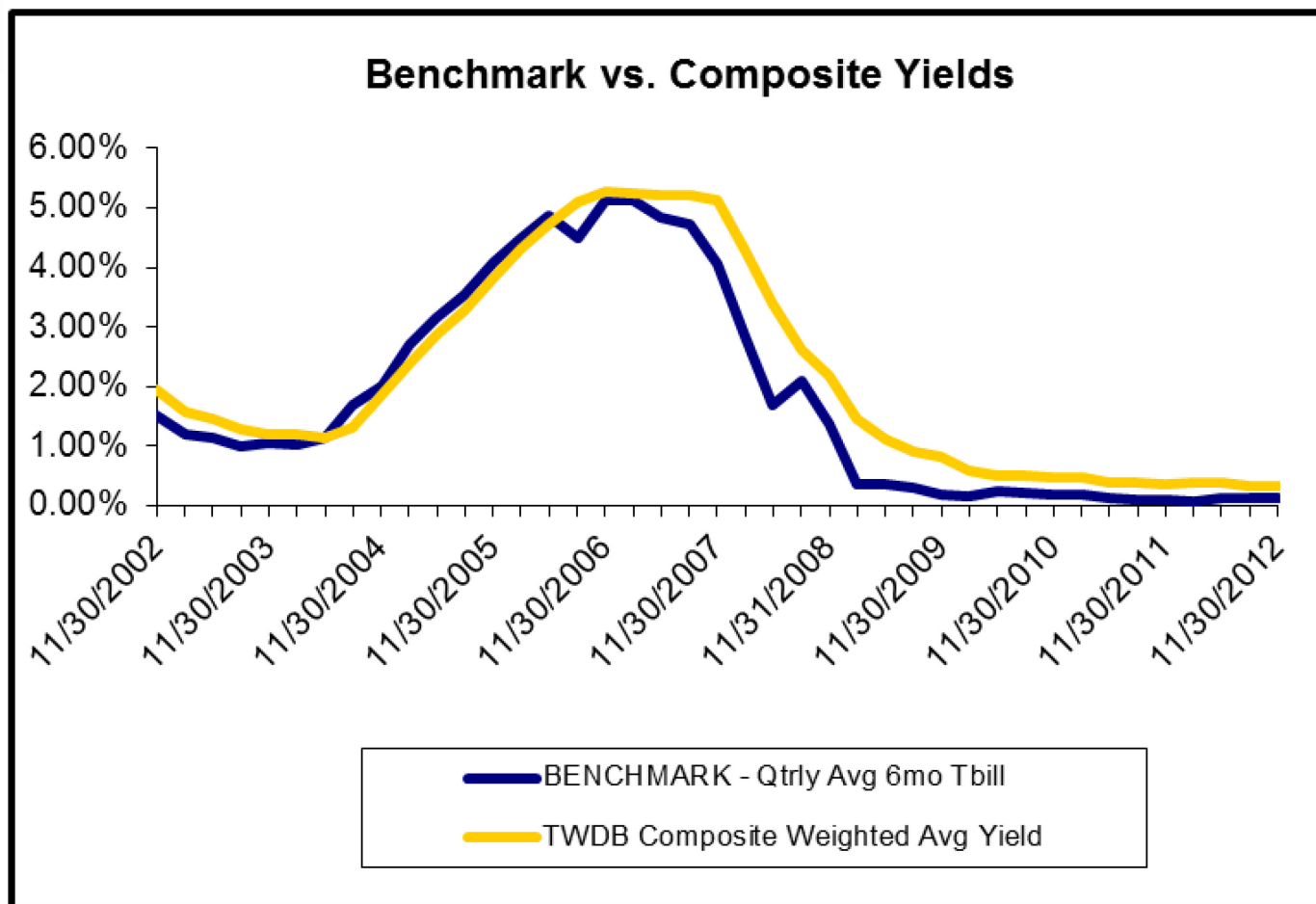
Debt Service Funds	0.51%
Special Revenue Funds	0.47%
Enterprise Funds	<u>0.31%</u>
Composite Weighted Average Yield:	0.33%
Benchmark - Qtrly Avg 6mo TBill:	0.14%



# Benchmark Yield vs. Composite Weighted Average Yield (2yrs)



# Benchmark Yield vs. Composite Weighted Average Yield



**TWDB SUMMARY STATEMENT OF INVESTMENT HOLDINGS**  
**For the Month of September, 2012**

Description	Par	Total Cost	Purchase Date	Maturity Date	Fund	Beginning Book Value 09/01/12	Ending Book Value 9/30/2012	Beginning Market Value 09/01/12	Ending Market Value 09/30/12
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**Debt Service Funds**

**Debt Service Fund Totals**

**Securities**

**Treasury/Trust Cash (03)**

**Total Cash & Securities**

0.00	0.00	0.00	0.00
5,944.65	5,945.63	5,944.65	5,945.63
\$ 5,944.65	\$ 5,945.63	\$ 5,944.65	\$ 5,945.63

Investments in these funds will be used primarily to match cash flow needs for EDAP and State Participation debt service payments. This objective will be accomplished by purchasing securities and credit of the U. S. Government and Government Agencies through a ladder structure or the use of an Inter Agency investment pool. The maturities in this fund will be 360 days or less, with the exception of the reserve funds which may be invested according to Chapter 365.17.

**Special Revenue Funds (02)**

FHDN	\$ 2,342,000.00	\$2,341,726.77	8/1/2012	9/12/2012	4802	\$ 2,341,928.44	*	\$ 2,341,976.58	*
FHLBDN	\$ 3,834,000.00	\$3,833,642.16	8/8/2012	9/19/2012	4802	\$ 3,833,846.64	*	\$ 3,833,884.98	*
FHLBDN	\$ 6,208,000.00	\$6,207,361.96	8/22/2012	9/28/2012	4802	\$ 6,207,534.40	*	\$ 6,207,751.68	*
FHDN	\$ 4,053,200.00	\$4,052,875.74	8/29/2012	10/4/2012	4802	\$ 4,052,902.76	\$ 4,053,172.98	\$ 4,052,875.74	\$ 4,053,200.00
FHDN	\$ 820,800.00	\$ 820,734.34	8/29/2012	10/4/2012	4808	\$ 820,739.81	\$ 820,794.53	\$ 820,734.34	\$ 820,800.00
FHLBDN	\$ 7,129,000.00	\$7,128,750.49	9/19/2012	10/10/2012	4802	*	\$ 7,128,893.07	*	\$ 7,128,928.71
FHDN	\$ 6,090,000.00	\$6,088,193.30	9/28/2012	12/26/2012	4802	*	\$ 6,088,254.20	*	\$ 6,089,391.00

**Special Revenue Fund Totals**

**Securities**

**Treasury/Trust Cash (02)**

**Total Cash & Securities**

17,256,952.05	18,091,114.78	17,257,223.32	18,092,319.71
79,384,700.45	147,167,913.39	79,384,700.45	147,167,913.39
\$ 96,641,652.50	\$165,259,028.17	\$ 96,641,923.77	\$165,260,233.10

Investments in these funds will be used primarily to match cash flow needs for financial programs. This objective will be accomplished by purchasing securities backed by the full faith and credit of the U. S. Government and Government Agencies through the use of a ladder structure or the use of an Inter Agency Investment pool. The maturities in this fund will be 360 days or less, unless specific approval is received by the Board, with the exception of the reserve funds which may be invested according to Chapter 365.17.

**Enterprise Funds**

**Enterprise Fund Totals**

**Securities**

**Treasury/Trust Cash (05 & 15)**

**Total Cash & Securities**

0.00	0.00	0.00	0.00
746,667,956.71	642,063,936.20	746,667,956.71	642,063,936.20
\$746,667,956.71	\$642,063,936.20	\$746,667,956.71	\$642,063,936.20

Investments in these funds will be used primarily to provide for liquidity and earnings for Board SRF and other Enterprise funds. This objective will be accomplished by purchasing securities and credit of the U. S. Government and Government Agencies through a ladder structure or the use of an Inter Agency investment pool. The maturities in this fund will be 360 days or less, with the exception of the reserve funds which may be invested according to Chapter 365.17.

**Grand Total Securities**

**Grand Total Treasury/Trust Cash**

**Grand Total**

\$ 17,256,952.05	\$ 18,091,114.78	\$ 17,257,223.32	\$ 18,092,319.71
\$826,058,601.81	\$789,237,795.22	\$826,058,601.81	\$789,237,795.22
\$843,315,553.86	\$807,328,910.00	\$843,315,825.13	\$807,330,114.93



**TWDB SUMMARY STATEMENT OF INVESTMENT HOLDINGS***For the Month of October, 2012*

Description	Par	Total Cost	Purchase Date	Maturity Date	Fund	Beginning Book Value 10/1/2012	Ending Book Value 10/31/2012	Beginning Market Value 10/01/12	Ending Market Value 10/31/12
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**Debt Service Funds****Debt Service Fund Totals****Securities**

	0.00	0.00	0.00	0.00
Treasury/Trust Cash (03)	5,945.63	5,947.88	5,945.63	5,947.88
<b>Total Cash &amp; Securities</b>	<b>\$ 5,945.63</b>	<b>\$ 5,947.88</b>	<b>\$ 5,945.63</b>	<b>\$ 5,947.88</b>

Investments in these funds will be used primarily to match cash flow needs for EDAP and State Participation debt service payments. This objective will be accomplished by purchasing securities backed and credit of the U. S. Government and Government Agencies through a laddered structure or the use of an Inter Agency investment pool. The maturities in this fund will be 360 days or less, unless specified is received by the Board, with the exception of the reserve funds which may be invested according to Chapter 365.17.

**Special Revenue Funds**

FHDN	\$ 4,053,200.00	\$ 4,052,875.74	8/29/2012	10/4/2012	4802	\$ 4,053,172.98	*	\$ 4,053,200.00	*
FHDN	\$ 820,800.00	\$ 820,734.34	8/29/2012	10/4/2012	4808	\$ 820,794.53	*	\$ 820,800.00	*
FHLBDN	\$ 7,129,000.00	\$ 7,128,750.49	9/19/2012	10/10/2012	4802	\$ 7,128,893.07	*	\$ 7,128,928.71	*
FHDN	\$ 6,090,000.00	\$ 6,088,193.30	9/28/2012	12/26/2012	4802	\$ 6,088,254.20	\$ 6,088,883.50	\$ 6,089,391.00	\$ 6,089,147.40
T-Bill	\$ 4,620,500.00	\$ 4,620,224.70	10/17/2012	11/8/2012	4802	*	\$ 4,620,412.40	*	\$ 4,620,453.80
T-Bill	\$ 820,500.00	\$ 820,451.11	10/17/2012	11/8/2012	4808	*	\$ 820,484.44	*	\$ 820,491.80
T-Bill	\$ 6,051,000.00	\$ 6,050,665.35	10/24/2012	11/15/2012	4802	*	\$ 6,050,787.04	*	\$ 6,050,878.98

**Special Revenue Fund Totals****Securities**

	18,091,114.78	17,580,567.38	18,092,319.71	17,580,971.98
Treasury/Trust Cash (02)	147,167,913.39	119,400,202.43	147,167,913.39	119,400,202.43
<b>Total Cash &amp; Securities</b>	<b>\$ 165,259,028.17</b>	<b>\$ 136,980,769.81</b>	<b>\$ 165,260,233.10</b>	<b>\$ 136,981,174.41</b>

Investments in these funds will be used primarily to match cash flow needs for financial programs. This objective will be accomplished by purchasing securities backed by the full faith and credit of the U. S. Government and Government Agencies through the use of a laddered structure or the use of an Inter Agency Investment pool. The maturities in this fund will be 360 days or less, unless specific approval is received by the Board.

**Enterprise Funds****Enterprise Fund Totals****Securities**

	-	-	-	-
Treasury/Trust Cash (05&15)	642,063,936.20	929,084,983.10	642,063,936.20	929,084,983.10
<b>Total Cash &amp; Securities</b>	<b>\$ 642,063,936.20</b>	<b>\$ 929,084,983.10</b>	<b>\$ 642,063,936.20</b>	<b>\$ 929,084,983.10</b>

Investments in these funds will be used primarily to provide for liquidity and earnings for Board SRF and other Enterprise funds. This objective will be accomplished by purchasing securities backed by the full faith and credit of the U. S. Government and Government Agencies through a laddered structure or the use of an Inter Agency investment pool. The maturities in this fund will be 360 days or less, unless specified is received by the Board, with the exception of the reserve funds which may be invested according to Chapter 365.17.

**Grand Total Securities****Grand Total Treasury/Trust Cash****Grand Total**

<b>\$ 18,091,114.78</b>	<b>\$ 17,580,567.38</b>	<b>\$ 18,092,319.71</b>	<b>\$ 17,580,971.98</b>
<b>\$ 789,237,795.22</b>	<b>\$ 1,048,491,133.41</b>	<b>\$ 789,237,795.22</b>	<b>\$ 1,048,491,133.41</b>
<b>\$ 807,328,910.00</b>	<b>\$ 1,066,071,700.79</b>	<b>\$ 807,330,114.93</b>	<b>\$ 1,066,072,105.39</b>

**TWDB SUMMARY STATEMENT OF INVESTMENT HOLDINGS**  
**For the Month of November, 2012**

Description	Par	Total Cost	Purchase Date	Maturity Date	Fund	Beginning Book Value 11/1/2012	Ending Book Value 11/30/12	Beginning Market Value 11/01/12	Ending Market Value 11/30/12
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**Debt Service Funds**

**Debt Service Fund Totals**

**Securities**

**Treasury/Trust Cash (03)**

**Total Cash & Securities**

		0.00	0.00
5,947.88	5,950.60	5,947.88	5,950.60
<b>\$ 5,947.88</b>	<b>\$ 5,950.60</b>	<b>\$ 5,947.88</b>	<b>\$ 5,950.60</b>

Investments in these funds will be used primarily to match cash flow needs for EDAP and State Participation debt service payments. This objective will be accomplished by purchasing securities backed by the full faith and credit of the U. S. Government and Government Agencies through a laddered structure or the use of an Inter Agency investment pool. The maturities in this fund will be 360 days or less, unless specific approval is received by the Board, with the exception of the reserve funds which may be invested according to Chapter 365.17.

**Special Revenue Funds**

T-BILL	\$ 4,620,500.00	#####	10/17/2012	11/8/2012	4802	\$ 4,620,412.40	*	\$ 4,620,453.80	*
T-BILL	\$ 820,500.00	\$ 820,451.11	10/17/2012	11/8/2012	4808	\$ 820,484.44	*	\$ 820,491.80	*
T-BILL	\$ 6,051,000.00	#####	10/24/2012	11/15/2012	4802	\$ 6,050,787.04	*	\$ 6,050,878.98	*
FHDN	\$ 4,785,500.00	#####	11/8/2012	12/5/2012	4802	*	\$ 4,785,433.53	*	\$ 4,785,500.00
FHDN	\$ 820,500.00	\$ 820,423.08	11/8/2012	12/5/2012	4808	*	\$ 820,488.60	*	\$ 820,500.00
T-BILL	\$ 5,076,000.00	#####	11/15/2012	12/13/2012	4802	*	\$ 5,075,754.66	*	\$ 5,075,949.24
FHDN	\$ 6,090,000.00	#####	9/28/2012	12/26/2012	4802	\$ 6,088,883.50	\$ 6,089,492.50	\$ 6,089,147.40	\$ 6,089,756.40

**Special Revenue Fund Totals**

**Securities**

**Treasury/Trust Cash (02)**

**Total Cash & Securities**

17,580,567.38	16,771,169.29	17,580,971.98	16,771,705.64
119,400,202.43	87,811,611.73	119,400,202.43	87,811,611.73
<b>\$ 136,980,769.81</b>	<b>\$ 104,582,781.02</b>	<b>\$ 136,981,174.41</b>	<b>\$ 104,583,317.37</b>

Investments in these funds will be used primarily to match cash flow needs for financial programs. This objective will be accomplished by purchasing securities backed by the full faith and credit of the U.S. Government and Government Agencies through the use of a laddered structure or the use of an Inter Agency Investment pool. The maturities in this fund will be 360 days or less, unless specific approval is received by the Board.

**Enterprise Funds**

**Enterprise Fund Totals**

**Securities**

**Treasury/Trust Cash (05&15)**

**Total Cash & Securities**

-	-	-	-
929,084,983.10	768,015,628.07	929,084,983.10	768,015,628.07
<b>\$ 929,084,983.10</b>	<b>\$ 768,015,628.07</b>	<b>\$ 929,084,983.10</b>	<b>\$ 768,015,628.07</b>

Investments in these funds will be used primarily to provide for liquidity and earnings for Board SRF and other Enterprise funds. This objective will be accomplished by purchasing securities backed by the full faith and credit of the U. S. Government and Government Agencies through a laddered structure or the use of an Inter Agency investment pool. The maturities in this fund will be 360 days or less, unless specific approval is received by the Board, with the exception of the reserve funds which may be invested according to Chapter 365.17.

**Grand Total Securities**

**Grand Total Treasury/Trust Cash**

**Grand Total**

<b>\$ 17,580,567.38</b>	<b>\$ 16,771,169.29</b>	<b>\$ 17,580,971.98</b>	<b>\$ 16,771,705.64</b>
<b>\$ 1,048,491,133.41</b>	<b>\$ 855,833,190.40</b>	<b>\$ 1,048,491,133.41</b>	<b>\$ 855,833,190.40</b>
<b>\$ 1,066,071,700.79</b>	<b>\$ 872,604,359.69</b>	<b>\$ 1,066,072,105.39</b>	<b>\$ 872,604,896.04</b>

## Debt &amp; Portfolio Management

FY2013

## Monthly Scorecard

**Investment Holdings****Debt Service Funds**

	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>
Securities	-	-		-		-	-	-	-	-	-	-
Treasury Pool	5,945.63	5,947.88	5,950.60									
Total	5,946	5,948	5,951	-	-	-	-	-	-	-	-	-
<i>Compared to FY 2012</i>	5,747	5,747	5,753	5,753	3	3,727	16,228	16,230	55,444	56,493	20	5,945

**Special Revenue Funds**

Securities	18,092,320	17,580,972	16,771,706									
Treasury Pool	119,400,202	119,400,202	87,811,612									
Total	18,092,320	136,981,174	104,583,317	-	-	-	-	-	-	-	-	-
<i>Compared to FY 2012</i>	130,960,892	127,830,259	126,511,514	119,954,636	120,968,518	178,584,125	125,494,755	114,583,073	121,490,794	119,251,134	91,927,011	96,641,924

**Enterprise Funds**

Securities	-	-	-									
Treasury Pool	642,063,936	929,084,983	768,015,628									
Total	642,063,936	929,084,983	768,015,628	-	-	-	-	-	-	-	-	-
<i>Compared to FY 2012</i>	796,468,029	704,183,693	731,050,502	689,055,636	650,035,813	701,709,723	804,516,041	954,288,569	1,070,453,129	953,759,655	811,814,354	746,667,957

Grand Total Securities	18,092,320	17,580,972	16,771,706	-	-	-	-	-	-	-	-	-
Grand Total Treasury Pool	642,069,882	1,048,491,133	855,833,190	-	-	-	-	-	-	-	-	-
Grand Total	660,162,202	1,066,072,105	872,604,896	-	-	-	-	-	-	-	-	-

<i>Compared to FY 2012 Grand Total</i>	927,434,668	832,019,699	857,567,768	809,016,024	771,004,334	880,297,575	930,027,024	1,068,887,872	1,191,999,367	1,073,067,282	903,741,385	843,315,825
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**Weighted Average Yields**

	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
Debt Service Funds	0.51%			
Special Revenue Funds	0.47%			
Enterprise Funds	0.31%			
Composite Weighted Avg.	0.33%			
Benchmark 6 Mo. T-Bill	0.14%			
Variance	0.19%	0.00%	0.00%	0.00%

## Investment Definitions

**Agency Note Long (Agency Discount):** GSE (Government Sponsored Entities. AAA rated corporation established by congressional charter and regulated by US government.) GSE securities are commonly referred to as Agency securities.

**Agency Floater Long (Agency Discount):** A GSE bond whose interest rate is adjusted according to the interest rates of other financial instruments i.e. 3 month LIBOR, also known as a floater.

**Commercial Paper:** Short Term (<270 days) corporate debt issuance.

**Long:** The term (LONG) on the QED report simply means that the security is longer than 1 year (has a maturity date of over 1 year) as of the trade date.

**Repurchase Agreements (Repos):** Typically overnight. Fully collateralized with securities of the U.S. Government or its agencies, or GSE (Government Sponsored Entities).

**Treasury Bills:** Negotiable debt obligations of the U.S. Government secured by its full faith and credit with maturities of one year or less issued at a discount from face value.

**Treasury Notes:** Negotiable debt obligations of the U.S. Government secured by its full faith and credit with maturities from one to ten years.

**Treasury Pool:** Funds held in short term investments, generally overnight, as a pool.